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SUBJECT: PYRAMID SCHEME HIGHLIGHTS PAST REGULATORY FAILURES AND
COSTS CITIZENS MILLIONS

REF: AMMAN 504

11. (SBU) Summary: Independent of the U.S. sub-prime crisis and the global financial crisis, as many as 70 Jordanian firms falsely claiming to broker and manage funds composed of financial instruments listed in markets outside Jordan collapsed in late September. Such "brokerage" firms were not regulated prior to the issuance of a current temporary law in September. The new law highlighted the risk to customers and may have prompted the resulting run on these institutions, which hurried their collapse. Thus far, 18 firms have been referred to the prosecutor general at the State Security Court for suspected fraud and more could be prosecuted. End Summary.

Financial Scams Hurt Thousands of Citizens

12. (SBU) As many as 70 firms may be implicated in a financial scam and are accused of fraud, operating pyramid schemes, and mismanaging of funds. It is believed that many of these firms mimicked market movements and transactions without actually executing clients' orders in real markets. The extent of the problem is not known, but it is estimated that it runs into the hundreds of millions of dollars and involves thousands of clients. The most troubling aspect is that it penetrates deep into Jordanian society at all levels and across all geographical locations. Most firms hired retired civil and military servants and trusted clergy to promote the services among their communities, promising 10 percent monthly returns. Most depositors risked, and many of them lost some or all of, their life savings, real estate and other family assets. There are legitimate firms operating in this market.

Temporary Law Changes Licensing and Prompts Run

13. (SBU) A temporary law, issued in September, changed the regulation and licensing of all such financial companies. Many observers believe that the new temporary law, which banned further deposits until the licenses were updated, triggered the domino-like collapse of these firms by alerting investors to the risks and prompting withdrawals. In the past, these firms operated under simple trade licenses from the Ministry of Industry and Trade (MoIT) without being regulated by either the Central Bank of Jordan (CBJ) or the Jordan Securities Commission. The new law places stringent regulations on foreign exchange companies requiring them to obtain a license from the newly established Foreign Exchange Regulatory Commission. Requirements for licensure include a \$14 million capital for privately owned firms and \$21 million for public firms

and a \$700,000 license fee. Also under the new requirements, 30 percent of the firm's capital must be deposited at the CBJ. Still, the government has been criticized for acting too late and too hastily in enacting an inadequate law because of pressures to address an immediate need.

¶4. (SBU) While some press opinion pieces have called the law too draconian, Senator Rajai Mouasher, Head of the Upper House of Parliament's Finance and Legal Committee and also Chairman of the Jordan National (Ahli) Bank, told EconOffs he supported the measure. He is hopeful that some of the savings of scammed Jordanians will be retrieved and welcomes a transparent and well-regulated market in international financial instruments where investors are aware of the associated risks. He further added that he believes most of the firms were retailers for larger but similar organizations based in Egypt.

18 Firms Already Being Investigated

¶5. (U) Thus far, 18 firms have been referred to the prosecutor general at the State Security Court for suspected fraud, and more could be prosecuted. The MoIT's Companies' Controller Department has said publicly that investors will not be able to recover their money for at least six months due to prolonged judicial processes, but the Comptroller further declared that depositors will eventually be partially reimbursed.

¶6. (SBU) One licensed junior financial advisor who runs a legitimate business described the technicalities of the pyramid scheme to EconOffs. He said that most firms would acquire software that allowed them to operate a brokerage service of instruments listed in

international markets, but the fraudulent ones would have the software mimic market movements without actually linking their systems to actual floor brokers. As a result, many transactions never entered the market. Some commentators believe that the local economy and Jordanians have yet to recover from the shock and realize the far-reaching damage. Others believe that the worst is over.

Not Related to Sub-Prime Mortgage Crisis

¶7. (SBU) While the scandal and associated crimes are not linked to the sub-prime mortgage crisis, the subsequent fall in international indices contributed to the crimes' exposure, since customers and regulators were paying increasing attention to financial markets. The Amman Stock Exchange (ASE), which has fallen more than 50 percent since this summer, has felt the effects of both the world financial crisis and the scandal but has likely also fallen due to its own market forces (reftel).

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